



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
August 13, 2004

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CALIFORNIA TREASURER ANGELIDES, CALPERS BOARD MEMBERS LAUNCH DRIVE TO END GOLDEN PARACHUTES FOR CORPORATE EXECUTIVES

In Wake of Unearned Executive Payday at WellPoint, Officials Call Upon CalPERS to Adopt Tough Policies and Lead National Effort to Reign in Lavish Severance Packages

SACRAMENTO, CA – California State Treasurer Phil Angelides – joined by California Public Employees' Retirement System (CalPERS) Board members George Diehr, Rob Feckner, Sean Harrigan, Priya Mathur and Charles Valdes – today launched an effort aimed at reigning in corporate “golden parachute” agreements in which executives reap lavish rewards as a result of mergers they engineer. The group asked CalPERS to: take the lead in setting tough new executive severance policies; enlist other institutional shareholders to adopt those policies; and join with other investors to mount a national shareholder campaign in 2005 against a targeted set of executive compensation and merger plans that do not meet these policies.

The six board members made the request today in a letter sent to their fellow CalPERS Investment Committee members. This action comes shortly after CalPERS, at the urging of Angelides and Harrigan, voted its shares against the proposed merger of WellPoint Health Networks, Inc. and Anthem, Inc., a merger that could result in bonus and severance payouts of more than a half billion dollars to top executives, regardless of the performance of the merged company.

In the letter, Angelides, Diehr, Feckner, Harrigan, Mathur and Valdes pointed to WellPoint's defense of its executives' golden parachute packages as a common practice, and the fact that the agreements were already in place prior to announcement of the merger, as a sign that shareholder action is sorely needed: “First, when egregious golden parachute awards are judged acceptable simply because they are common, it is a sign that the market has spun out of control. Second, such practices can be corrected only through concerted action by shareholders to restore common sense and balance to severance pay.”

Angelides and the other board members called on CalPERS to lead a national effort to protect shareholders from excessive golden parachutes by taking the following actions:

- Adopting tough new policies assuring that executive severance packages related to mergers and acquisitions are aligned with shareholders' interests;

- Enlisting other institutional investors around the country to adopt CalPERS' new policies as a model; and
- Joining with other institutional investors in 2005 to wage a visible and effective shareholder campaign against an identified set of executive compensation and merger plans that do not meet the model policy.

In their letter, the group urged CalPERS to adopt model policies that would discourage executive severance packages from unfairly enriching insiders at the expense of shareholders, and that would tie compensation to performance of the merged company. They called for new policies that prohibit accelerated vesting of options for top executives in mergers, requiring instead that executives' unvested options be converted into options in the new company, to link their interests with those of shareholders. Additionally, they said CalPERS' policies should place reasonable limits on severance payments, and that severance packages should not include "gross-ups," provisions that require the company, and its shareholders, to pay federal taxes owed on excessive golden parachute awards.

The six asked that the CalPERS Investment Committee take up their request "as soon as possible," so that the policies and an action plan are in place for the 2005 proxy season.

A copy of the board members' letter to the CalPERS Investment Committee can be found on the Treasurer's website: www.treasurer.ca.gov.

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PHILIP ANGELIDES
Treasurer
State of California

August 13, 2004

Honorable Members
Investment Committee
California Public Employees' Retirement System
Lincoln Plaza
400 P Street
Sacramento, CA 95814

Honorable Members:

When the California Public Employees' Retirement System (CalPERS) decided in June, at our urging, to oppose the merger of WellPoint Health Networks Inc. and Anthem Inc. over the outrageous golden parachutes being awarded to WellPoint executives, two arguments were offered against our stand. We were told that we should not object to the huge payouts, potentially more than a half billion dollars at the expense of shareholders, because everybody does it. And we were told that we should not vote against the merger because the golden parachutes were already in place; the right time to have objected, we were told, was when they were originally awarded.

We draw two conclusions from these arguments. First, when egregious golden parachute awards are judged acceptable simply because they are common, it is a sign that the market has spun out of control. Second, such practices can be corrected only through concerted action by shareholders to restore common sense and balance to severance pay.

To that end, we are writing to urge CalPERS to take the national lead to protect shareholders from excessive golden parachutes that, as in the WellPoint example, can be triggered by the very executives who stand to get a huge unearned payday from the merger they engineer. We call on CalPERS to:

- Adopt tough new policies assuring that executive severance packages related to mergers and acquisitions are aligned with shareholders' interests;
- Enlist other institutional shareholders around the country to adopt CalPERS' new policies on golden parachutes as a model;

- Join with other institutional investors in 2005 to wage a visible and effective shareholder campaign against an identified set of executive compensation and merger plans that do not meet the model policy.

The WellPoint executive severance plan that will be triggered by its merger with Anthem is the most recent example of common practices that are indefensible from the shareholders' perspective. The golden parachutes in that plan include severance payments amounting to two to three times annual salary and bonus, accelerated vesting of stock options, and even commitments to increase the payouts to cover executives' liability for the federal excise tax on excessive golden parachute compensation.

By the mere fact of this merger, which they helped to engineer, many WellPoint executives will be able to claim these huge payouts. They will be eligible to leave and take this severance payout if the merger reduces their "title, status, duties or compensation." The plan says they will be entitled to the severance for no reason other than that their office moves by more than 35 miles, as will happen in the merger.

The largest unearned payday belongs to CEO Leonard D. Schaeffer. Mr. Schaeffer, who will give up his CEO post, will receive \$36 million in severance and tens of millions more in enhanced retirement benefits and accelerated vesting of options as a result of the deal. Mr. Schaeffer and other executives will get the extra pay whether the merged company prospers or flounders. They will reap millions whether the merger benefits shareholders or hurts them.

Unfortunately, a missing link between severance payouts and merger performance is all too common. At Time Warner, executives were able to trigger accelerated vesting of their options by the simple act of announcing a proposed merger in January 2000. While they walked away with hundreds of millions, shareholders suffered an 80 percent drop in the stock's price over the next three years. At Sprint, top executives altered the firm's compensation plan in 1999 to accelerate vesting of \$1.7 billion in options when the company's proposed merger with WorldCom was approved by shareholders. They took the golden parachute payday even when regulators blocked the merger.

By adopting a model policy on appropriate severance compensation of executives in mergers, CalPERS can begin to alter practices that unfairly enrich insiders at the expense of shareholders. The model policy should contain, at minimum, the following three elements:


- No accelerated vesting of options for top executives in mergers. When executives engineer a merger, they should not be allowed to cut loose their own financial fate from the performance of the business combination they have put together. By requiring their unvested options to be converted into options in the new company, the policy would link their interests with those of the shareholders.

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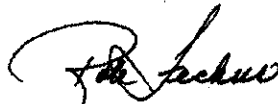
- Place reasonable limits on severance payments to executives when mergers occur. Federal law places a steep excise tax on "excessive" golden parachutes, those that provide more than three years of compensation. But what federal law set as a ceiling has become the floor on golden parachutes. CalPERS should put in place a model severance policy that more clearly ties payouts to shareholders' interests.
- In no case should a severance package include "gross-ups," an aptly named term for provisions that require the company, and the shareholders, to pay the federal taxes owed on excessive golden parachute awards.

When we stood up to oppose the WellPoint-Anthem merger over the deal's egregious payouts to WellPoint executives, we heard widespread disgust over the unearned paydays and fervent wishes that shareholders would band together to prevent such severance packages from being awarded in the first place. Now is the time for CalPERS to begin that work by taking the national lead to remove the luster from these unjustifiable golden parachutes.

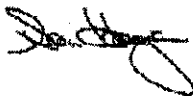
Sincerely,



Phil Angelides
State Treasurer



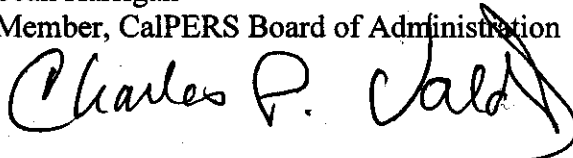
Rob Feckner
Member, CalPERS Board of Administration



Sean Harrigan
Member, CalPERS Board of Administration



Priya Mathur
Member, CalPERS Board of Administration



Charles P. Valdes
Member, CalPERS Board of Administration



George Diehr
Member, CalPERS Board of Administration